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Internal audit and oversight

Activity report for 2014 of the Internal Audit and Investigations Group of the United Nations Office for Project Services

Summary

The Director of the Internal Audit and Investigations Group of the United Nations Office for Project Services hereby submits to the Executive Board this activity report on internal audit and investigation services for the year ended 31 December 2014. The response of UNOPS management to this report is presented separately, as per Executive Board decision 2006/13.

Elements of a decision

The Executive Board may wish to:

(a) *Take note of* the annual report of the Internal Audit and Investigations Group for 2014;
(b) *Take note of* the progress made in implementation of audit recommendations, including those that are more than 18 months old; and
(c) *Take note of* the annual report of the Strategy and Audit Advisory Committee for 2014 (in line with Executive Board decision 2008/37).

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Annexes (*available on the Executive Board website*)

1. Unresolved audit recommendations issued more than 18 months before 31 December 2014

2. Titles of all internal audit reports issued during the year 2014

3. Strategy and Audit Advisory Committee - annual report 2014

4. Reports issued by the Internal Audit and Investigation Group in 2014 relating to preliminary assessments or investigations which resulted in a finding of misconduct

I. Introduction

1. The Internal Audit and Investigations Group (IAIG) is pleased to provide the Executive Board with the annual report on UNOPS internal audit and investigation activities for the year ended 31 December 2014. This report contains details pursuant to Executive Board decisions 2008/13 and 2012/18, specifically: (a) a table displaying unresolved audit recommendations by year and category; (b) an explanation of findings that remained unresolved for 18 months or more; and (c) titles of all internal audit reports issued during the year.

2. The IAIG Director reports to the Executive Director of UNOPS and assists the Executive Director with her accountability function. In this regard, IAIG provides assurance, offers advice, recommends improvements and helps to enhance the risk-management, control and governance systems of the organization. IAIG also seeks to promote and support accountability by conducting investigations into reports of violations of applicable rules, regulations and administrative or policy directives. Additionally, IAIG supports management in the application of UNOPS general policies and objectives, as described in the UNOPS Strategic Plan, 2014-2017 (DP/OPS/2013/3).

3. IAIG continued to interact with the UNOPS Strategy and Audit Advisory Committee during 2014. In accordance with Executive Board decision 2008/37, the annual report of the Committee for 2014 is attached as annex 3 to this report.

II. Role and functions of the Internal Audit and Investigations Group

A. Mandate, functions and standards

4. The mandate, functions and standards for internal audit and investigations within UNOPS is derived from the organization's financial regulations and rules, approved by the Executive Director as Organizational Directive No. 3, revised and effective 1 January 2012. Per regulation 6.01, IAIG:

> shall conduct independent, objective assurance and advisory activities in conformity with the International Standards for the Professional Practice of Internal Auditing. It shall evaluate and contribute to the improvement of governance, risk management and control processes, and report thereon.

5. The Internal Institute of Auditors' (IIA) International Professional Practices Framework provides the standards and guidance to which IAIG adheres for all of its engagements.

6. Per regulation 6.02, in addition to providing internal audit services to UNOPS, IAIG is "responsible for assessing and investigating allegations of fraud and corruption committed by UNOPS personnel or committed by others to the detriment of UNOPS."

7. The mandate, scope, responsibility, accountability and standards of IAIG are further defined in the Internal Audit Charter approved by the Executive Director and issued as Organizational Directive No. 25, revised and effective 9 December 2013; in Organizational Directive No. 2, "UNOPS Accountability Framework and Oversight Policies"; Organizational Directive No. 15 (Addendum 2), "UNOPS Global Structure"; and Organizational Directive No. 36, "UNOPS Legal Framework for Addressing Non-Compliance with Standards of Conduct".

B. Coordination with the United Nations Board of Auditors and other United Nations oversight bodies

8. IAIG coordinated its internal audit work with, and made its results available to, the United Nations Board of Auditors. Furthermore, the Group's annual planning process included consultation with the Board of Auditors.

9. IAIG continued to coordinate its activities with the United Nations Office of Internal Oversight Services, the United Nations Representatives of Internal Audit Services (UN-RIAS), the United Nations Representatives of Investigation Services and the Joint Inspection Unit (JIU).

III. Approved annual internal audit workplan for 2014

10. The primary aims of the 2014 workplan were to evaluate and improve the effectiveness of risk-management, control and governance processes; and provide the Executive Director with the assurance that internal controls and procedures are functioning as intended. The workplan contained a detailed discussion of the planning approach, objectives, risk assessment, scope, nature of audit services and operating budget.

A. Risk-based internal audit plan

11. An audit risk assessment identifies and prioritizes potential audit areas that pose the greatest risk to the organization. Typically, this is made possible through the risk-management system which has been put in place by management. A risk assessment enables internal audit resources to be allocated to those areas that are most critical to the organization's success in reaching its goals. The result is documented in a risk-based internal audit workplan.

12. In preparing its workplan for 2014, IAIG refined the risk-assessment model used in earlier years to ensure consistency between internal audit priorities and the goals of UNOPS management. IAIG gathered data from a variety of internal sources and consulted existing components of the risk-management system mandated in UNOPS financial regulation 4.01 and financial rules 104.01 and 104.02 to perform this assessment. UNOPS also commenced an enterprise risk management programme to improve organization-wide risk identification and mitigation techniques.

13. The 2014 audit workplan, based on the audit risk assessment, acknowledged the geographical diversity of UNOPS operations worldwide and included both compliance and performance audits.

B. Progress on implementation of annual workplan

14. All the internal audits planned for 2014 were completed and final reports issued during the year (see table 1 below).

Table 1. Status of implementation of the workplan as at 31 December 2014

	IAIG internal audits	Project audits	Total
Number of audits planned in 2014	8	0*	8
Total audit reports issued	8	14	22
Total audits carried over to 2015	Nil	Nil	Nil

* Nil as requests for project audits are client-driven

IV. Highlights of 2014 audit activities

15. As noted in table 1, IAIG issued 22 reports during 2014, compared with 21 in 2013. The number of reports is greatly influenced by client requests and reporting requirements, as per project agreements.

16. The IAIG audits fell under one of two categories that reflected the differences in approach:

(a) Internal audits conducted by IAIG (eight reports);

(b) Project audits conducted under the supervision of IAIG by professional auditing firms or consultants to fulfil project reporting requirements (14 reports).

17. The 22 audit reports issued in 2014 contained 110 audit recommendations. Of these, 82 pertain to internal audit reports (table 3) and 28 to project audit reports (table 6).

A. Internal audits conducted directly by the Internal Audit and Investigations Group

Internal audit reports issued

18. During the year ended 31 December 2014, eight internal audit reports were issued by IAIG and submitted to the UNOPS Executive Director, as detailed in table 2.

Table 2. List of internal audit reports issued by the Internal Audit and Investigations Group in 2014

Report title	Rating*
Internal audit of the Ethiopia Project Centre	Partially satisfactory
Internal audit of the Panama Operational Hub	Satisfactory
Internal audit of the Kenya Operational Hub	Satisfactory
Internal audit of the Côte d'Ivoire Operational Hub	Partially Satisfactory
Internal audit of the Sri Lanka Operational Hub	Partially satisfactory
Internal audit of the Cambodia Operations Centre	Satisfactory
Internal audit of due diligence in vendor background checking	Satisfactory
Review of payroll, benefits, entitlements and settlements services	Not applicable**

* As per the harmonized definitions adopted by the internal audit services of UNDP, UNFPA, the United Nations Children's Fund, UNOPS and the World Food Programme, effective 1 January 2010:

- a "satisfactory" rating means "internal controls, governance and risk management processes were adequately established and functioning well. No issues were identified that would significantly affect the achievement of the objectives of the audited entity;" and
- a "partially satisfactory" rating means "internal controls, governance and risk-management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity."

** This was a consultancy service and in line with IAIG standard procedures, no overall rating was provided. As the report contained recommendations, it was included in the above list.

Analysis of internal audit recommendations issued in 2014

19. Pursuant to Executive Board decision 2008/13, IAIG analyzed the recommendations issued by level of importance and frequency of occurrence in a functional area.

20. The number of internal audit recommendations issued decreased from 87 in 2013 to 82 in 2014 and as a result, the average number of recommendations by audit report decreased from 11 in 2013 to 10 in 2014. This is in line with the advice of the Strategic Audit and Advisory Committee that IAIG focus on the more significant risks and systemic issues.

Level of importance of audit recommendations related to IAIG audits

21. Of the 82 recommendations issued, 37 (45 per cent) were considered to be high importance[1] and 45 (55 per cent) of medium importance, as shown in table 3. Low-priority recommendations are addressed during the field work stage of the audit.

Table 3. Categorization of audit recommendations, by level of importance

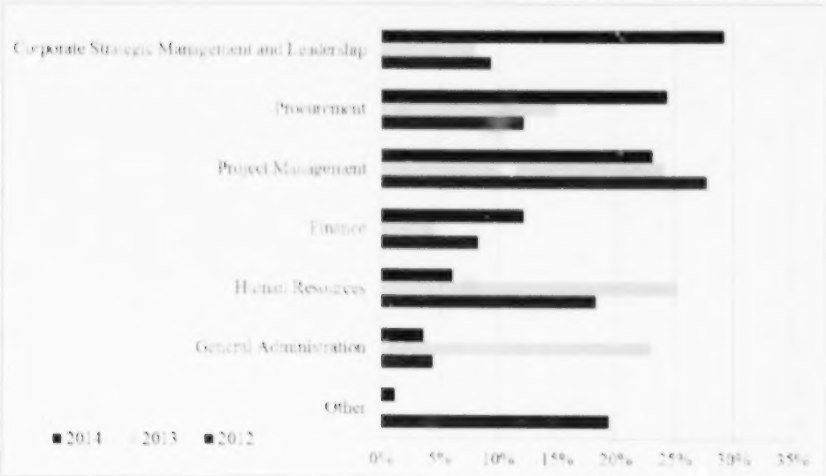
Level of importance	Number of recommendations			Percentage of total		
	2012	2013	2014	2012	2013	2014
High	59	52	37	33	60	45
Medium	121	35	45	67	40	55
Total	**180**	**87**	**82**	**100**	**100**	**100**

Frequency of occurrence of audit recommendation by functional area

22. The frequency of audit recommendations by functional area is displayed in figure 1. Most recommendations pertained to corporate strategic management and leadership (28 per cent), procurement (26 per cent) and project management (23 per cent), followed by finance (12 per cent), human resources (6 per cent), general administration (4 per cent) and contracts and property review (1 per cent). It should be noted that this distribution by functional area was driven by the audit scope as identified in the risk assessment conducted for each engagement.

[1] Level of importance:
High: action considered imperative to ensure that UNOPS is not exposed to high risks.
Medium: action considered necessary to avoid exposure to significant risks.
Low: action considered desirable and should result in enhanced control or better value for money.

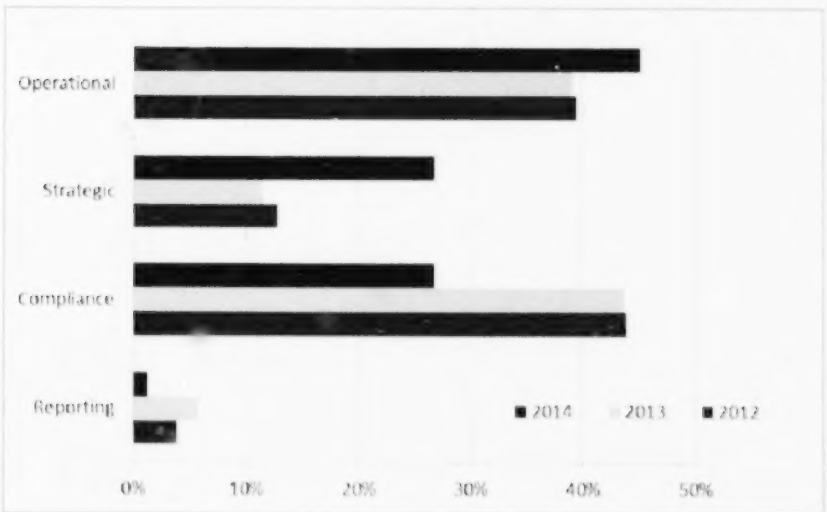
Figure 1. Internal audit recommendations by functional area[2]



Key areas of improvement identified in 2014 internal audit reports

23. Supplementing the previous analysis, figure 2 shows the number of recommendations by objective type.[3] Recommendations on operational issues (45 per cent) were highest, followed by those addressing strategic (27 per cent) and compliance issues (also 27 per cent), and reporting (1 per cent).

Figure 2. Number of recommendations issued in 2014 by objective



Operational matters

24. In the area of project management, recommendations were made to: (a) strengthen the engagement acceptance process by strictly following the pricing policy and ensuring consistency between the lead system and the Implementation Analysis Note; (b) ensure effective engagement risk

[2] The "other" category includes security, information technology, contract and property review, and partner, products and services quality management.

[3] As per entity objectives mentioned in "Internal Control – Integrated Framework" (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission.

management; (c) ensure that agreements are entered into with clients only after due acceptance by the engagement authority; (d) ensure that risk increment is charged to the projects and that risk logs are maintained and updated regularly; (e) ensure effectiveness of internal controls for the creation of award and projects in ATLAS; (f) ensure that regular sample verifications of recipient transactions are done, as well as a thorough review of expenditures and supporting documentation prior to the disbursement of funds to implementing partners; (g) ensure effective monitoring of deadlines for submission of reports to the local fund agent; (h) ensure that business development leads are entered into the system as soon as they are identified; (i) implement tracking and follow-up on findings and recommendations from field monitoring visits to ensure that issues are addressed in a timely manner; (j) work with implementing partners to establish expectations regarding the number of supervision visits to be carried out; (k) ensure sufficient control over the disbursement of project materials to end users; and (l) ensure effective management of project funds and strengthen oversight of project expenditures. A combination of guidelines, tools and more effective monitoring should help to address the issues raised.

25. In the area of procurement, recommendations were made to: (a) ensure effective management of bank guarantees; (b) strengthen the monitoring system for procurement activities; (c) ensure segregation of duties in the procurement process; (d) ensure that bid evaluation committees are appropriately composed by the procurement authority; (e) ensure that declarations of conflict of interest are signed by all bid evaluation committee members; (f) ensure due diligence in the request for quotation process; (g) establish long-term agreements for recurring procurement; (h) establish a standard operating procedure for interaction with the UN Web Buy team based at UNOPS headquarters; and (i) implement a risk-based approach to due diligence in checking suppliers' backgrounds at the solicitation stage.

26. In the area of human resources, recommendations were made to: (a) strengthen the process of desk review of recruitments and their approval; (b) ensure retroactive adjustment of staffing cost allocations based on the effective date of appointment; (c) ensure that the merging of key positions and responsibilities takes into consideration short- and long-term interests of the office; and (d) ensure that formal approvals of appointments are communicated and that salaries are allocated to projects accordingly.

27. In the area of asset management, recommendations were made to provide a clarification to UNOPS personnel regarding the term "official business" as noted in AI/CSPG/2013/01 relating to the management and use of official vehicles.

28. In the area of finance, recommendations were made to: (a) ensure effective management of locally managed direct costs; (b) ensure independent verification of completeness and accuracy of benefits, entitlements and payroll charges; and (c) provide documentation to support the increase in costs for benefits and entitlements services despite a reduction in the number of UNOPS staff.

Compliance matters

29. Recommendations to ensure better compliance with policies and procedures were made in the majority of the reports and covered most functional areas. The most significant recommendations were to: (a) strengthen the control system to ensure that transactions are recognized in the accounting period in which they occur; (b) ensure that all new and past suppliers with ongoing business with UNOPS have a unique vendor profile in ATLAS; (c) ensure a formal release of a guidance note on payments through cash suppliers to all affected units; (d) ensure that personnel whose contracts have expired do not continue to work; (e) ensure that purchase orders are issued for the full amount

of contracts; (f) ensure that procurement is carried out as per the terms and conditions of the contract; (g) develop and implement instructions for the recovery of costs associated with the use of official vehicles for personal use; (h) ensure compliance with delegation of authority procedures; (i) ensure the recovery of value added taxes paid during procurement; (j) ensure segregation of duties; (k) ensure that up-to-date business continuity plans exist in operational hubs; (l) ensure that funds are not advanced unless a written commitment for expenditure incurred in advance has been received from the partner; (m) ensure due diligence in registration of vendors by UNOPS in the United Nations General Marketplace; and (n) ensure that project funds are not transferred between unrelated projects unless formal authorization is obtained from the donor. More thorough guidance and supervision by management, together with better training, should address the points raised.

Strategic matters

30. Attention was called to matters that could impact the achievement of strategic objectives, organization-wide or at the level of the regional office or operations/project centre.

31. In the area of corporate strategic management and leadership, management's attention was drawn to the need to: (a) prepare a detailed workplan for implementing the business strategy envisaged for the operational hubs; (b) resolve outstanding financial accounting and reporting issues and incorporate reporting requirements in the new UNOPS enterprise resource planning application; (c) draw up terms of reference for operational hubs, reiterating their scope and jurisdiction as per Organizational Directive No. 15 (addendum 2); (d) assume responsibility for the management of administrative and locally-managed direct cost budgets; (e) strengthen the hubs' capacity with respect to their human resources function; (f) define the reporting lines, oversight mechanisms as well as workplans of the support functions for the new structure of operational hubs; (g) implement a structured, proactive approach to business development with government and other partners; (h) pursue business portfolio diversification to reduce reliance on a small number of donors; (i) conduct a detailed analysis to help identify the best location to set up new operational hubs; (j) implement monitoring mechanisms over portfolios; and (k) set up memoranda of understanding with key partners.

B. Projects audits

Single audit principle

32. IAIG continues to uphold the United Nations "single audit principle" as detailed in the UNOPS report on internal audit and oversight in 2007 (DP/2008/21).

33. While management is responsible for meeting the requirements of project agreements, IAIG supports fulfilling these obligations as per the audit clauses in these agreements. For that purpose, IAIG engages third-party professional auditing firms to conduct these audits. All the professional firms used have been pre-qualified by UNOPS and adhere to the terms of reference approved by IAIG. All audit reports prepared by such firms are assessed for quality by IAIG before issuance.

34. In 2014, 11 of the 14 project audit reports were issued by one audit firm, with which IAIG established a three-year professional services contract in 2013. The relationship with this firm has been positive thus far and has led to greater consistency in reporting, improved timelines and a simplified process for conducting project audits.

Internal audit reports issued for projects

35. During the year ended 31 December 2014, 14 audit reports relating to specific projects were issued by IAIG and submitted to the UNOPS Executive Director.

36. As shown in table , a majority of the 14 audit reports for projects issued in 2014 provided both an audit opinion on the financial statement of the project and a rating of the internal control environment, according to the requirements of the partner and primary stakeholder(s) concerned.

Table 4. Number of project audit reports issued, 2012-2014

	2012	2013	2014
Audit reports issued expressing an opinion on the financial statement and providing a rating of the internal control environment	16	12	11
Audit reports issued expressing an opinion on the financial statement only	1	1	3
Audit reports issued providing a rating of the internal control environment only	1	0	0
Total	**18**	**13**	**14**

37. As shown in table 5, the proportion of project audits with an unqualified opinion on their financial statements has improved steadily, from 88 per cent in 2012 to 92 per cent in 2013, and to 100 per cent in 2014. The progressive increase in the number of unqualified reports reflects the improvement in the quality of financial reports produced by UNOPS.

38. The proportion of project audits with a "satisfactory" rating for internal controls has decreased, from 67 per cent in 2013 to 55 per cent in 2014. There were no project audits with an "unsatisfactory" rating for internal controls.

Table 5. Summary of project audit opinions and ratings of internal controls for project audits, 2012-2014

Type of opinion or rating	Number of audit reports			Percentage of total		
	2012	2013	2014	2012	2013	2014
Audit opinion on financial statement of project						
Unqualified opinion	15	12	14	88	92	100
Qualified opinion	2	1	0	12	8	0
Total	**17**	**13**	**14**	**100**	**100**	**100**
Rating of overall level of internal control						
Satisfactory	10	8	6	59	67	55
Partially satisfactory	7	4	5	41	33	45
Unsatisfactory	0	0	0	0	0	0
Total	**17**	**12**	**11**	**100**	**100**	**100**

Financial impact of project audit findings in 2014

39. The Executive Board, in decision 2010/22, requested that information on the financial impact of audit findings be incorporated in future reports. For 2014, the cumulative financial impact of project audit reports with a qualified opinion was nil.

Project audit recommendations issued in 2014

40. The 14 project audit reports issued generated 28 audit recommendations (compared to 50 audit recommendations in the 13 audit reports issued in 2013).

This was due to the increased focus of internal audit on the more significant risks and systemic issues. These recommendations are analyzed by importance and frequency of occurrence in a functional area.

Level of importance of audit recommendations related to project audits

41. As seen in table 6, the proportion of audit recommendations rated as being of high importance decreased from 19 per cent in 2013 to 10 per cent in 2014.

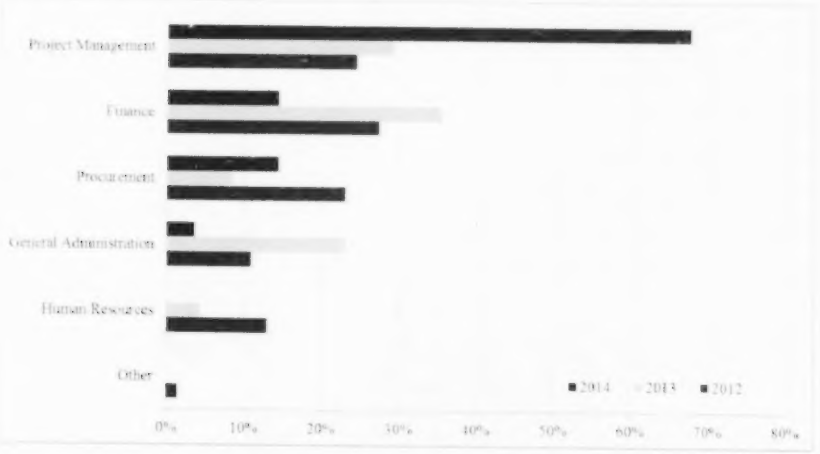
Table 6. Categorization of project audit recommendations by level of importance

Level of importance	Number of recommendations			Percentage of total		
	2012	2013	2014	2012	2013	2014
High	18	9	3	13	19	11
Medium	98	38	21	70	79	75
Low	23	1	4	17	2	14
Total	**139**	**48**	**28**	**100**	**100**	**100**

Frequency of occurrence of project audit recommendations by functional area

42. The frequency of audit recommendations by functional area, displayed in figure 3, shows that most recommendations pertained to project management (68 per cent), finance (14 per cent), procurement (14 per cent) and general administration (4 per cent).

Figure 3. Project audit recommendations by functional area[4]



Key areas for improvement identified in 2014 project audit reports

43. Key areas for improvement include:

(a) *Project programme management.* Recommendations were made to: (i) enhance compliance with contractual reporting requirements; (ii) ensure preparation of the planning and disbursement schedule; (iii) accelerate implementation of project activities; (iv) improve project work planning; (v) ensure that expenditures are incurred in line with approved budget lines; (vi) ensure adequate project oversight by the Project Steering Committee and Budget Committee; (vii) improve quarterly reporting; (viii) ensure that project budget expenditure is regularly monitored; and (ix) ensure that client reports are prepared on time;

[4] The "other" category includes information technology and corporate strategic management and leadership.

(b) *Finance*. Recommendations were made to: (i) ensure that the budget is properly monitored; (ii) ensure that the correct chart of accounts is used; (iii) ensure that funds are committed to make payments which are eligible as per project agreements; (iv) ensure that petty-cash balances are properly monitored; (v) ensure that the required project coding in the ATLAS system is complete; and (vi) ensure that expenditures are properly supported by adequate documentation;

(c) *Procurement*. Recommendations were made to: (i) ensure that contract terms are adhered to; and (ii) ensure that documentation of procurement activities meets the requirements of the procurement manual;

(d) *Human resources*. Recommendations were made to: (i) ensure compliance of individual contractor engagements as per organizational guidelines; and (ii) ensure that documentation is complete;

(e) *General administration (asset management)*. Recommendations were made to ensure compliance with documentation requirements and asset transfer and monitoring guidelines on project asset management.

C. Improvements to the UNOPS internal control system

44. In 2014, management introduced further measures to strengthen the internal control system and these improvements were taken into account during the preparation of the audit workplan.

45. Strengthening the internal control system is an ongoing process. During 2014, management either revised or issued new policies and procedures in the following areas: (a) revision of policy on individual contractor agreements (ICAs); (b) new organizational directive on sustainable infrastructure: health and safety; (c) new administrative instruction on compliance with infrastructure design planning manuals; (d) revision of instruction on management of property, plant and equipment; (e) revision of master table of authority in procurement; (f) revision of working hours and leave policy for individual contractors; (g) new administrative instruction on UNOPS Provident Fund; (h) revision of internship policy; (i) revision of policy on accounting policies in compliance with the International Public Sector Accounting Standards (IPSAS); (j) revision of policy on personnel learning and development; (k) new instruction on recovery of direct cost; (l) revision of the procurement manual; (m) revision of policy on UNOPS merit rewards; (n) new instruction on ATLAS security; and (o) revision of policy on official duty travel.

46. UNOPS maintained its certification by the global International Organization for Standardization (ISO) 9001 Quality Management System, and expanded the coverage of its ISO 14001 certified Environmental Management System to cover infrastructure projects in Afghanistan, Kosovo[5] and the State of Palestine. In 2014, UNOPS established and implemented a health and safety management system for infrastructure operations, which is now certified by the United Kingdom-based Occupational Health and Safety Advisory Services 18001, the internationally applied standard for occupational health and safety management systems. The aim is to reduce the health and safety risks that UNOPS personnel and contractors face when working on potentially hazardous infrastructure projects.

47. The UNOPS internal control system is supported by corporate tools and systems. In 2014, UNOPS introduced a new enterprise resource planning system designed to better integrate operational processes and systems. This new system should increase the quality of information for management decision-making, enable UNOPS to provide more efficient operational support to partners and support implementation of IPSAS. The system is a key element of the continued

[5] In the context of Security Council resolution 1244 (1999).

efforts to optimize UNOPS risk-management systems, and to strengthen internal controls, segregation of duties and compliance.

48. In 2014, UNOPS improved its risk-management process, further linking the assessment of risks at project and corporate levels, clarifying accountability and allowing for escalation of risks. Management, with the support of IAIG, also commenced developing an enterprise risk management system which will unify risk-management practices across the organization. These enhancements were adopted in response to external auditors' request for a more systematic approach and clear procedures for implementing enterprise risk management in practice (A/69/5/Add. 11) and in accordance with recommendation made by the Strategy and Audit Advisory Committee in its annual report for 2013 (DP/OPS/2014/3, annex 3). Further, these changes to the risk management process have enabled better aggregation of data and information, which has improved the prioritization of UNOPS work and resources.

49. In 2014, UNOPS management and IAIG worked effectively together to ensure the implementation of internal audit recommendations and to incorporate these results into performance data for various UNOPS departments. By using these performance data, management was able to rapidly resolve issues and areas of risk identified, thereby safeguarding the effectiveness of the UNOPS internal control framework. The result of these efforts is evidenced by the overall implementation of 97 per cent of internal audit recommendations issued from 2008 to 2014, as well as only a few (five) recommendations remaining outstanding which are more than 18 months old.

V. UNOPS accountability framework

50. In accordance with the UNOPS accountability framework and oversight policies, the IAIG Director reports to the Executive Board on the resources available and required for the implementation of the accountability framework.

51. The pillars of the UNOPS accountability framework and oversight policies that are internal to the organization include IAIG, the Strategy and Audit Advisory Committee, the Ethics Officer, the Office of the General Counsel, the Appointment and Selections Panel, the Appointment and Selections Board, the headquarters Contracts and Property Committee, the balanced scorecard system and the implementation of UNOPS organizational directives and administrative instructions.

52. The fundamental pillars of the UNOPS accountability framework and oversight policies that are external to the organization include the Executive Board, the United Nations Board of Auditors, JIU, the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee of the General Assembly.

VI. Disclosure of internal audit reports

53. IAIG complies with Executive Board decisions 2008/37 and 2012/18 and the procedures approved therein regarding disclosure of internal audit reports.

54. Accordingly, IAIG has published, on the UNOPS public website, the executive summaries of internal audit reports issued after 30 June 2012 and the complete internal audit reports issued after 1 December 2012. Furthermore, since November 2011, all functional and thematic audit reports and the list of all audit reports issued since 2008 have been posted on the UNOPS public website.

55. The IAIG experience with the public disclosure of audit reports has been positive, as it leads to enhanced transparency and accountability and to timely action by management on audit recommendations. It has also continued to raise the standard of audit reports as a result of the increased quality assurance efforts required by internal auditors.

VII. Advisory services

56. At the request of management, IAIG provides internal advisory services that cover a variety of issues relating to UNOPS internal controls, policies and organizational directives, business processes, proposed project agreements and other specific concerns. In accordance with IIA standards, IAIG acts only in an advisory capacity and does not participate in the implementation of any procedure.

57. During 2014, IAIG provided advisory services which included providing advice on the implementation of a new enterprise resource planning system and continuous monitoring tests to be included in the configuration; advising management on the creation of a treasury function within UNOPS; providing input on the revision of Organizational Directive No. 4, "Engagement Acceptance" and strengthening the risk-management component of the process; and developing the scope for a fraud risk assessment and advising management on strategies for encouraging adoption of the assessment. IAIG also participated in the UNOPS Information and Communication Technology Advisory Board as an observer.

58. In 2014, IAIG used the Growth and Innovation Fund to support the development of an anti-fraud and anti-corruption course related to procurement. A three-module course and accompanying materials were developed for delivery in-house and on a cost-recovery basis to programme partners and other United Nations agencies.

59. To build procurement capacity within UNOPS, in 2014 IAIG and the Sustainable Procurement Practices Group co-developed and published a webcast for UNOPS personnel on due diligence in supplier background checking.

60. Following a client request, IAIG contracted an audit firm to conduct an expenditure verification of the service contract "External Actions of the European Community (EU) - Implementation of the EU Elections Observation Mission in the Democratic Republic of Congo."

61. Furthermore, IAIG continued to assist management in reviewing proposed project agreements containing audit clauses to ensure that these clauses are in accordance with Executive Board decisions and the UNOPS financial regulations and rules.

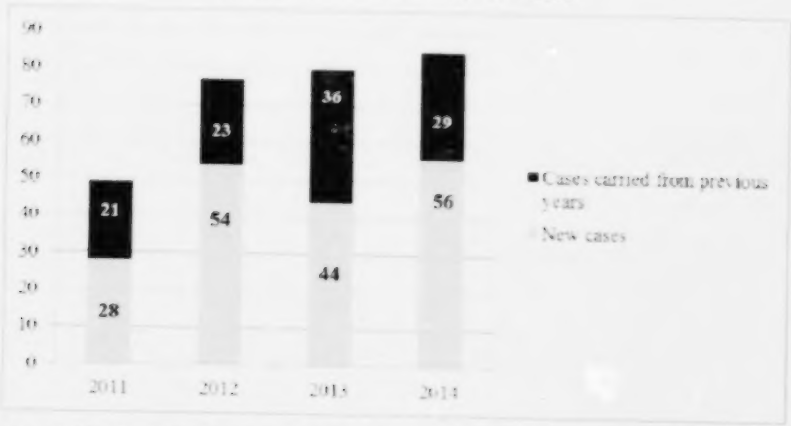
VIII. Investigations

62. IAIG is the sole entity in UNOPS responsible for conducting investigations into allegations of fraud, corruption, abuse of authority, workplace harassment, sexual exploitation, retaliation and other acts of misconduct.

A. Complaint intake

63. In 2014, IAIG received 93 complaints, 56 of which became cases and 37 were for information. This was an increase from 2013, when IAIG had 74 complaints (44 cases, and 30 for information). In addition, 29 cases were carried over into 2014: one from 2009; three from 2012; and 25 from 2013 (figure 4).

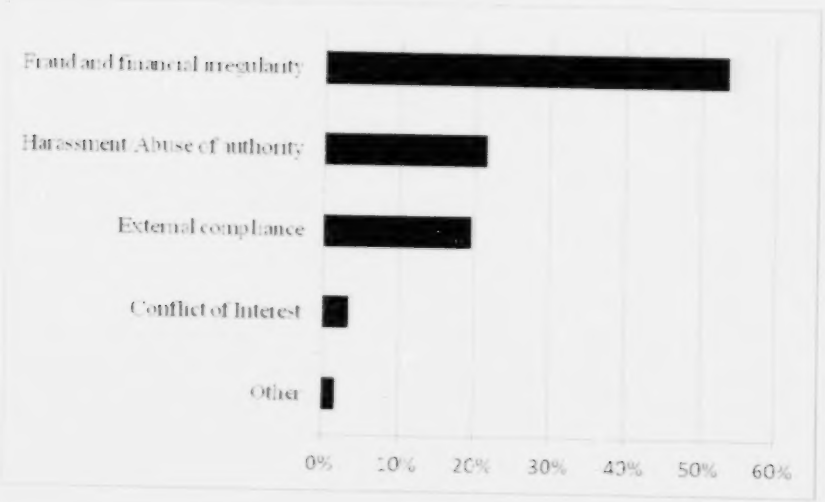
Figure 4. Number of cases, 2011–2014



64. Fifty-four per cent of the cases opened in 2014 were referred by management or personnel; 9 per cent came through the IAIG fraud hotline or the UNOPS harassment hotline; and 37 per cent came via other means (i.e., external organizations such as the medical insurance provider).

65. Of the 56 cases opened in 2014, 54 per cent (30 cases) involved some type of alleged fraud or financial irregularities (procurement fraud, entitlement fraud, theft, embezzlement or misuse of UNOPS resources). Another 21 per cent (12 cases) involved harassment and abuse of authority, and a further 20 per cent (11 cases) involved external compliance (allegations of medical insurance fraud and violation of local laws). Two cases (4 per cent) related to alleged conflict of interest and one other case related to another type of alleged misconduct.

Figure 5. Types of cases opened in 2014



B. Outcome of investigations

66. An initial review of complaints received is undertaken to determine whether the allegations fall within the IAIG mandate or jurisdiction. If they do, a preliminary assessment is conducted. If this assessment reveals that

wrongdoing may have occurred. IAIG conducts a formal investigation. If the allegations are substantiated, IAIG submits an investigation report to the human resources legal officer for appropriate action.

67. In 2014, 58 cases were closed, reducing the open caseload from 85 to 27 cases, a reduction of 68 per cent (see table 7).

Table 7. Closing of investigation complaints in 2014

	Number of cases	Per cent
Cases carried over from 2013	29	34
Cases received in 2014	56	66
Total caseload in 2014	**85**	**100**
Cases closed with no further action necessary		
• after initial review	22	38
• after investigation	4	7
Total cases closed with no further action necessary	*26*	*45*
Cases closed recommending further action		
• after initial review	6	*10*
• after investigation	26	45
Total cases closed recommending further action	*32*	*55*
Total cases closed in 2014	**58**	**100**
Cases carried over to 2015	27	

68. As a result of the initial review, 22 cases (38 per cent of all cases closed) were found to be unsubstantiated and did not require further investigation. Four more were closed after investigation without referral to the human resources legal officer (7 per cent of all cases closed).

69. Three cases were referred to the Vendor Review Committee in 2014 for consideration of further action (all nine vendors involved in cases closed in prior years). At the time of writing, the Vendor Review Committee had sanctioned 23 vendors.

70. IAIG also made referrals in cases where the allegations may not have been substantiated but still warranted further action. For example, it referred one case to another United Nations agency. Three cases were referred to the human resources legal officer for letters to be placed in individuals' personnel files, for such reasons as non-cooperation by former personnel. IAIG also referred four cases to management for consideration of further action.

71. IAIG issued 28 reports in 2014. Since some cases involved multiple subjects, more than one individual may have been included in one report. Out of these 28 reports, IAIG recommended disciplinary action in 25 reports against 23 personnel members and referred nine vendors to the Vendor Review Committee, as shown in the attached annex.

72. Of those 23 personnel:

(a) five individuals were disciplined;

(b) nine individuals separated from UNOPS before the administrative process was completed. Since the United Nations Dispute Tribunal does not permit disciplinary actions for those who have separated from the Organization, the matter will be addressed if and when the individuals are considered for future UNOPS positions;

(c) 10 cases are pending against nine individuals.

73. Management action was also taken against nine individuals whose cases originated prior to 2014. Fifteen individuals left before the administrative

process was completed, so the matter will be addressed if and when the individuals are considered for future UNOPS positions.

74. In addition to administrative recommendations, IAIG recommended a referral to national authorities in one case.

C. Strengthening the investigative capacity

75. For its investigative work, IAIG has two dedicated professionals who are supported by an investigative assistant. It has continued to rely upon consultants for additional support, and this was particularly the case in 2014 as its caseload grew. This growth is attributed to the Executive Director's strong support for IAIG, increased training offerings and communications about IAIG and greater cooperation with clients. To strengthen its investigative capacity in the light of the increased case load and expansion of its responsibilities, IAIG upgraded its P-4 investigator post to a managerial position (P-5).

76. IAIG continues to focus its limited resources on serious cases and refers less serious matters to the appropriate office. For instance, IAIG works closely with the People and Change Management Group on harassment and abuse of authority cases. Similarly, IAIG works with legal officers and senior managers, who may undertake initial reviews of allegations on its behalf. Responding to the Executive Board's request for more prevention activities, IAIG added a new position to the team, that of conflict resolution and integrity training specialist, who leads the UNOPS strategy for informal conflict resolution and drives integrity and anti-corruption education efforts.

77. The conflict resolution and integrity training specialist will contribute to support a well-functioning working environment and its personnel. Therefore, IAIG not only has a formal grievance procedure, but also since July 2014 an informal grievance procedure through which amicable solutions can be sought for day-to-day conflicts in the workplace. By availing of conflict resolution services at an early stage, parties can voluntarily seek to resolve differences before they escalate.

78. In 2014, six conflict resolution cases were opened (table 8). Of these, four were closed after facilitation of informal conflict resolution. The remaining two were recommended for further action.

Table 8. Closing of conflict resolution cases in 2014

	Number of cases
Cases received in 2014	6
Total caseload in 2014	**6**
Cases closed with no further action necessary	
• after preliminary assessment	2
• after conflict resolution facilitation	2
Total cases closed with no further action necessary	*4*
Cases closed recommending further action	
• after preliminary assessment	2
Total cases closed recommending further action	*2*
Total cases closed in 2014	**6**
Cases carried over to 2015	**0**

79. IAIG also conducted standards of conduct and integrity training workshops. A total of 238 personnel were trained in 12 workshops around the world (table 9).

Table 9. Standards of conduct and integrity training workshops in 2014

Region	Number of workshops	Number of participants
Headquarters	3	45
Africa	4	60
Asia, Europe and the Middle East	4	112
Latin America and the Caribbean	1	21
Total	12	238

80. IAIG remains an integral part of the UNOPS Vendor Sanctions Regime and serves in an advisory capacity to the Vendor Review Committee. In 2014, IAIG submitted three cases to the Vendor Review Committee for consideration of sanctions against numerous vendors, in addition to eight cases referred in 2013. At the time of writing, the Vendor Review Committee had sanctioned 23 vendors. More detail is publicly available on the UNOPS website.[6]

81. The organization is committed to deterring, detecting and preventing fraud and other misconduct in the performance of its mission and in the conduct of its operations. Therefore, in collaboration with the Ethics Office, IAIG issued its third annual confidential survey regarding integrity, ethics and anti-fraud measures. Owing to strong support from the Executive Director, participation greatly increased in 2014, with 40 per cent of UNOPS-supervised personnel completing the survey in contrast to 7 per cent in 2013. The survey provided valuable insight into areas of susceptibility to fraud, employees' concerns and the effectiveness of deterrence programmes and mechanisms for addressing issues. Personnel expressed a desire for more training on the subject matter and greater communication about reporting channels and the outcome of investigations. The results of the survey will be incorporated into planning of future activities, such as training and other preventative measures.

82. IAIG will also revisit the legal framework for addressing non-compliance with United Nations standards of conduct, working with the Legal Practice Group to consider any changes or updates that could streamline the investigative process.

83. As previously mentioned under advisory services, IAIG remains committed to strengthening preventative measures, particularly in the field of fraud. Pursuant to the revised charter of IAIG, its mandate was expanded to include training and fraud prevention. In 2013, UNOPS introduced a standards of conduct workshop for UNOPS personnel. The workshop is part of UNOPS proactive efforts to raise awareness on compliance and ethics. The objectives are to help raise the awareness of UNOPS employees with regard to the importance of operating in line with the highest ethical standards, aligning the work of UNOPS with its vision, mission and values, as well as training personnel to spot potential issues and know where to report concerns or suspicions. In 2014, IAIG trained 238 people via 12 different workshops around the world.

D. Collaborating with others

84. With the objective of enhancing its investigation function, IAIG collaborated with various UNOPS units, namely the Legal Practice Group, the Human Resources Practice Group, the Ethics Office and several regional and country offices. IAIG was able to resolve many issues raised through official and other channels without proceeding into investigation, due to interdepartmental cooperation and support from senior management. At the same

[6] https://www.unops.org/english/Opportunities/suppliers/Pages/Vendor-sanctions.aspx

time, other groups continue to seek the advice of IAIG, as reflected in its "for-information-only" caseload.

85. IAIG undertook a number of measures to further enhance its capacity to undertake investigations and to exchange fraud intelligence with other investigative units so as to better identify and deal with wrongdoing that may impact UNOPS. IAIG increased its efforts to collaborate with the investigation offices of other international organizations. For instance, it works closely with the other United Nations agencies in the United Nations Representatives of Investigative Services to strengthen investigation practices and professionalism by providing a forum for development of policies and procedures. The areas for collaboration include joint investigations, vendor sanctions and exchanging information and providing advice.

86. This collaboration with other investigative bodies has been further strengthened through the signing of cooperation agreements with other organizations. These include agreements on the prevention, detection and investigation of fraud and corruption, signed with the Global Fund to Fight AIDS, Tuberculosis and Malaria and the United Kingdom's Department for International Development.

IX. Summary of follow-up of internal audit recommendations

A. Implementation of audit recommendations issued in 2014 and prior years

87. In line with the International Professional Practices Framework for internal auditing, the IAIG annual workplan included the follow-up and monitoring activities to ensure that management actions have been effectively implemented.[7] IAIG maintains an online tool designed to enable managers to report action taken on the status of implementation of audit recommendations, and desk reviews are performed by IAIG on actions taken and information provided thereon.

88.

89. Table shows the outcome, as of 15 January 2015, for all audit recommendations issued between 2008 and 2014. Of the audit recommendations issued in or prior to 2011, 100 per cent were implemented, as were 99 per cent of those issued in 2012. The overall implementation rate of audit recommendations issued from 2008 (the year that IAIG started undertaking internal audits) to 2014 was 97 per cent, an increase from the 93 per cent reported in 2013, indicating high responsiveness on the part of management to implement the audit recommendations.

B. Recommendations unresolved for 18 months or more

90. As a result of concerted and proactive efforts by management, the number of audit recommendations issued more than 18 months before 31 December 2014 (on or before 30 June 2013) that remained unresolved was five (4 per cent of the total 131 outstanding recommendations). It is also worth noting that all recommendations reported as outstanding for more than 18 months in last year's annual report have now been closed. Details are provided in annex 1.

[7] Framework from Institute of Internal Auditors, Performance Standard 2500 – Monitoring progress.

Table 10. Status as of 15 January 2015 of implementation of audit recommendations issued before 31 December 2014

	2008-2011	2012				2013			2014			Total for 2008-2013
Number of audit recommendations	**Total**	**IAIG audit**	**Project audit**	**Mine Action audits**	**Total**	**IAIG audit**	**Project Audit**	**Total**	**IAIG audit**	**Project Audit**	**Total**	
Implemented/ closed	**3184**	179	138	38	**355**	55	38	**93**	12	13	**25**	3657
as a percentage	*100*	*99*	*99*	*100*	*99*	*63*	*76*	*68*	*15*	*46*	*23*	*97*
Under implementation	**0**	1	1	0	**2**	32	12	**44**	70	15	**85**	**131**
as a percentage	*0*	*1*	*1*	*0*	*1*	*37*	*24*	*32*	*85*	*54*	*77*	*3*
Total	**3184**	**180**	**139**	**38**	**357**	**87**	**50**	**137**	**82**	**28**	**110**	**3788**
as a percentage	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*

X. Operational issues

A. Resources

91. During 2014, the budgeted IAIG staffing included one director (D-1 level), one senior internal auditor (P-5 level), four internal auditors (one P-4 level, one P-3 level and two engaged under ICAs), two investigators (one P-5 level and one P-3 level), one conflict resolution and integrity training specialist (P-3) and one investigation assistant. One international ICA position was vacant for five months and one P-3 position was vacant for six months during the year. All positions were encumbered as of the date of this report. The IAIG internal structure is supplemented by the engagement of third-party professional firms, individual consultants and interns. Further, IAIG continued to retain an editor for quality assurance of the internal audit reports.

92. The budgeted expenditure of IAIG for 2014 was $2.324 million for and actual expenditure was $2.181 million.

B. Involvement with professional bodies and other groups

93. In 2014, IAIG continued its formal relationship with IIA, to whose International Professional Practices Framework it adheres and of which all IAIG auditors are members. Auditors also met their continuing professional education requirements and maintained their respective audit and accounting designations and memberships. Further, IAIG participated in the 2014 IIA annual meeting held in London.

94. IAIG actively participated in the eighth annual meeting and in the regular conference calls of UN-RIAS. IAIG also participated in the forty-fifth meeting of the broader group, the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions.

95. IAIG participated in the 15th Conference of International Investigators and in the third informal meeting of the heads of investigations of United Nations organizations. IAIG also participated in the annual Association of Certified Fraud Examiners European conference, held in Amsterdam in 2014.

96. IAIG supported the UNOPS Ethics Office at the sixth meeting of the Ethics Network of Multilateral Organizations, held in Copenhagen in 2014.

97. IAIG also assisted the Ethics Office in the development of an awareness campaign, to strengthen the knowledge of UNOPS personnel of their integrity and ethics obligations within the organization.

C. Strengthening the audit function

98. During 2014, IAIG made a number of improvements in its internal policies and procedures. Working papers and templates continued to be revised to improve the efficiency of the audit process. User guides and client instructions for implementing recommendations in the IAIG audit software, TeamMate, were revised and improved. A dashboard for tracking audit recommendations was created and will be posted to the IAIG intranet site in 2015.

D. Strategy and Audit Advisory Committee

99. During 2014, the Strategy and Audit Advisory Committee continued to review the annual workplan, budget, regular progress reports and annual report of IAIG, and to provide advice for increasing the effectiveness of the internal audit and investigation functions.

100. The Strategy and Audit Advisory Committee annual report for 2014 is contained in annex 3.